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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

No. 911

JONES & LAUGHLIN STEEL CORPORATION, *Petitioner*,

v.

HARDINGE COMPANY, INCORPORATED, *Respondent*

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

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INDEX

	Page
Opinions Below	1
Jurisdiction	1
Question Presented for Review	2
Statutes Involved	2
Statement of the Case	3
Argument	7
Conclusion	12

Table of Cases

Dixie Cup Co. v. Paper Container Manufacturing Co. (CA 7, 1949), 174 F. 2d 834	12
Goodyear Tire & Rubber Co. v. Marbon Corporation, et al. (D.C.D. Del. 1940), 32 F. Supp. 279	11
Home Owners' Loan Corporation v. Huffman (C.A. 8, 1943), 134 F. 2d 314, 317	10
Jacquard Knitting Machine Co. v. Ordnance Gauge Co. (CA 3, 1954), 213 F. 2d 503	12
Laufenberg, Inc. v. Goldblatt Bros., Inc. (CA 7, 1951), 187 F. 2d 823	13
Park-In-Theatres, Inc. v. Perkins et al. (CA 9, 1951), 190 F. 2d 137	12
Pennsylvania Crusher Co. et al. v. Bethlehem Steel Co. et al. (CA 3, 1951), 193 F. 2d 445	13
Philadelphia Brief Case Co. v. Specialty Leather Products Co. (D.C.D. New Jersey, 1958), 160 F. Supp. 153	12
Philadelphia Gear Works, Inc. v. Kerotest Mfg. Co. (W.D. Pa. 1951), 101 F. Supp. 820, 822	13
Ransburg Electro-Coating Corp. v. Hamilton Mfg. Co. (E.D. Wisc. 1938), 159 F. Supp. 159	13
Roberts Mining & Milling Co. v. Schrader (CA 9, 1938), 95 F. 2d 522	11

Page

MISCELLANEOUS

Moore's Federal Practice (2d Ed.), Vol. III, pp. 85-86 11
35 U.S.C. Section 285 ..... 8, 9, 11, 12
Report No. 1503, 79th Congress, 2d Session, Senate 9
Federal Rules of Civil Procedure 13(a) and 41a(2), Title 28 United States Code 10, 11

APPENDIX

Federal Rules of Civil Procedure 13(a) 1a
Federal Rules of Civil Procedure 41(a)(2) 1a
Excerpt from Senate Report No. 1503, 79th Congress, Second Session, June 14, 1956 (page 2) 1a
Opinion of the Court of Appeals 3a

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OPINIONS BELOW

While the decision of the United States District Court for the Western District of Pennsylvania is not supported by an opinion, the Order denying Petitioner's Motion was based upon prior dismissal of the suit. (Joint Appendix page 358a).

JURISDICTION

The jurisdiction requisites are adequately set forth in the Petition.

QUESTION PRESENTED FOR REVIEW

The question which Petitioner is in fact asking this Court to review is whether the Court of Appeals erred in its conclusion that the Trial Court did not abuse its discretion in denying Petitioner's Claim for attorneys' fees.

According to the United States Court of Appeals, abuse of discretion of the District Court is the sole issue. It held:

> "This Court denied the defendant counsel fees under 35 U.S.C. Section 285. Such an award is necessarily one based upon the court's discretion and its consideration of what constitutes an exceptional case under the statute cited. We do not think that the exercise of the court's discretion against such an award in this instance is one which we can say constituted an abuse of that discretion."

The problem involves not only Petitioner's filing of a Motion for Attorney's Fees under 35 U.S.C. Section 285, but also Respondent's prior filing of a Motion to Dismiss under Rule 41(a)(2) of the Federal Rules of Civil Procedure.

STATUTES INVOLVED

The statutory provisions involved are as stated in the Petition and the following in addition. Federal Rules of Civil Procedure 13(a) and 41(a)(2) of Title 28 United States Code. These Rules are printed in the Appendix, infra, page 1a.

STATEMENT OF THE CASE

Lest the facts, as stated by Petitioner, be misleading, Respondent is owner of two patents which he honestly believed to be infringed by Petitioner. Petitioner is a purchaser and user of the alleged infringing systems and Petitioner was held harmless against infringement by Aerofall, a Canadian corporation selling in the United States.

The incomplete facts as stated by Petitioner, follow the pattern of his action before the Court of Appeals. Moreover, in the District Court, Petitioner diverted the court's attention, for a long time, from the principal issues of alleged infringement, then directing the court's attention to fabricated issues of patent usage, marking and alleged abuse of process of the court. The allegation of abuse of process has long since been withdrawn by Petitioner (Joint Appendix page 162a Paragraph IV) but is now inexplicably revived.

What then commenced as a bona-fide patent suit in the Spring of 1957 developed into exhaustive scrutiny of the Respondent-patentee and his company to the extent that one of the Respondent's patents expired (Joint Appendix page 117a) and the other would have expired ere completion of trial on the merits. It was ascertained, during respondent's discovery, that the second of the two patents was probably not infringed due to changes made in the Petitioner's accused grinding mill system. Petitioner admitted discontinuance of manufacture of "anything up there that could con-

ceivably be infringing" (Joint Appendix page 118a). Little then remained of the opportunity for speedy trial on the merits; little remained of the patent case which was pending two years and far from trial on the merits. Accordingly, in 1959 Respondent sought to rid himself of the monetary expense which the completion of this litigation would entail. Since the advantages of winning a case on the merits were out-weighed by the cost of prosecution, Respondent filed his Motion to Dismiss. (Joint Appendix pages 353a-354a). Significant is the fact that this Motion was patterned after decision in Ransburg Electro-Coating Corp. v. Hamilton Mfg. Co. (E.D. Wisc. 1958) 159 F. Supp. 159.

Petitioner filed a Motion for Summary Judgment upon "unclean hands" issues in the Spring of 1958 and the District Court received carefully prepared briefs from both parties and in May entertained exhaustive argument on said motion prior to denying same. (Joint Appendix pages 99a-135a).

It was at this time, and later (Joint Appendix pages 165a-166a) that the Court had before it a full statement of Respondent's policy with regard to pricing and use of patents which was eminently justified in view of: the nature of Respondent's business which involves manufacturing and selling large items of a custom-built nature; the comparative small size of the Respondent company, relative to other manufacturers of grinding mills; the patent history of Respondent company and its heavy reliance upon its patent program to give it the necessary standing. As to the marking question

the court noted Respondent's marking to be normal (Joint Appendix pages 174a and 175a; 333a and 334a).

Subsequently, the District Court considered the extensive and explanatory statements on pre-trial, Respondent's pre-trial statement alone consisting of over 25 pages of the current record transcript (Joint Appendix pages 164a-189a) and itself found that one patent had expired pendente lite. Evidence appeared showing the apparent non-infringement of the other two patents.

The significant factor is that Petitioner would have this court to understand that it had been denied hearing on the issue of attorneys' fees, when in fact the principal argument of petitioner at the hearing on Respondent's Motion to Dismiss was on the very subject of attorneys' fees and why Petitioner felt entitled to them. This was explained to the Court of Appeals as follows:

> "A hearing on Plaintiff's Motion to Dismiss was held on June 18, 1959. At the hearing defendant presented to the lower court the same arguments for an award of attorneys' fees, including its claim thereto under 35 U.S.C. 285 that it now presents to this Court. Defendant opposed the granting of plaintiff's Motion to Dismiss unless the court imposed on plaintiff, as a further condition of dismissal, the payment of some $70,000 of counsel fees and expenses allegedly incurred by Aerofall in defending this suit on behalf of the defendant, Jones & Laughlin Steel Corp. After full consider-

ation of the arguments of counsel and the facts of record in this proceeding, the lower court held at the conclusion of the hearing that it would grant plaintiff's Motion for voluntary dismissal upon submission of an order that incorporated the following changes in the conditions proposed by plaintiff: (1) a dismissal of the complaint 'with prejudice', rather than 'without prejudice', and (2) the payment of $5,000 to defendant, in lieu of "taxable costs".

Plaintiff accepted these changes; and on June 19, 1959 the day following the hearing, plaintiff submitted to the lower court the conditional order of dismissal that was approved and entered by the court that day, along with its memorandum opinion (Appendix, pages 354a-356a).

On the same day, June 19, 1959, defendant filed a motion for payment of attorneys' fees under 35 U.S.C. 285 (Appendix, pages 356a-357a)—a matter that had been fully argued at the hearing the day before. The lower court denied defendant's motion that same day, on the ground that the order of dismissal had already been entered (Appendix, page 358a)" [From pages 4 & 5, Respondent's Brief for Appellee in the United States Court of Appeals for the Third Circuit No. 12,983.]

The District Court had thus heard Petitioner's arguments. A copy of the Motion for Attorneys' Fees was apparently delivered directly to the chambers of the

District Court Judge after these arguments and he in turn denied the Motion for Attorneys' Fees stating:

"And now this 19th day of June, 1959, the Order of Dismissal having been entered, it is ordered that the within Motion for Attorneys' Fees be and the same hereby is, denied."

Petitioner had thus had its day in court.

ARGUMENT

The sole question presented by the Petition is whether the District Court abused its discretion in refusing to award Petitioner attorneys' fees.

The very stating of the question answers it in the negative. No constitutional question is here involved; no conflict of courts of different circuits over the construction of a Federal Statute exists. The Court of Appeals had before it the entire record and extensive briefs of the parties and upon full review following oral argument determined that there was no abuse of discretion. No compelling reason is given why further review is either necessary or appropriate.

How many, many times the District Court considered at length the questions leading to refusal of attorneys fees is evident from reference to the Statement of Facts above.

No prima facie case was established by Petitioner on its allegations of misuse, mismarking, price discrimination and misuse of process of the courts. The District Court and the Court of Appeals refused to

recognize the existence of such a prima facie case. Petitioner in an attempt to show a prima facie case relied upon unproved allegations, in most instances, clearly contradicted by documentary exhibits introduced by Respondents at Pre-Trial hearings.

One must search in vain to find such evidence as will qualify this case as "exceptional" within the meaning of 35 U.S.C. 285. Typical of the misleading argument of Petitioner is the following appearing at page 7 of its Petition:

> "Instead, the District Court in this case rendered a decision which is an open invitation to a patentee who is guilty of misuse of his patents contrary to the avowed public policy of the United States or violation of Federal Statutes to bring suit, to subject the defendant to great expense, and then voluntarily to dismiss before trial and to rely upon the precedent of this case to avoid the penalty that Congress intended him to suffer."

No guilt has been established by Petitioner of Respondent. On the contrary, the record is replete with explanatory exhibits such as remove any stigma of guilt or mala fides. Respondent-patent owner intended to hold its best witnesses for trial, and not to develop its case out of court as did Petitioner. Petitioner, on the other hand, would have this Court consider that during discovery it had established "guilt", but nothing in the record does so; nor did the courts below fail to observe and hear argument based upon all dis-

covery documents within the record. (Joint Appendix).

Congress did not intend that 35 U.S.C. § 285 be applied to the unproved, imagined or fabricated case of statutory violation, and Respondent is surprised that Petitioner shall impute "guilt" of Respondent so prematurely. "Guilt", as alleged by Petitioner, connotes criminal violation, and intent, but this has not been proved, nor is Petitioner deprived of this opportunity. The House Committee on Patents Report No. 1503, which Petitioner relies upon, calls for a judgment being first rendered on the issues, before the Court may exercise its discretion with respect to attorneys' fees. It is grossly unfair, then, for Petitioner to exact such an award before judgment. The entire petition is thus based upon an erroneous concept of the alleged infringer's interpretation of 35 U.S.C. § 285.

The Motion to Dismiss awarded costs to Petitioner of $5,000—which, in view of Petitioner having assumed the risk of infringement and having been sued for same, was most generous. Although Petitioner apparently would not have this Court consider the Motion to Dismiss, Respondent believes that consideration thereof is imperative to intelligent disposal of the present Petition.

The Motion to Dismiss, as amended by the Court and agreed to by the Respondent under Order of June 19, 1959, contained safeguards guaranteeing defendant against future action; it contained cost payment to petitioner, aforesaid, and it even included indemnifi-

cation for the silent and unofficial defendant, Aerofall, as well as customers of Aerofall. (Joint Appendix, pages 353a and 354a). The District Court's Order dismissing the suit was therefore based upon Respondent's original Motion, and negotiations precedent to and during argument before the District Court on June 18, 1959. Petitioner now seeks in effect to reopen matters that have been most carefully weighed in arguments on the Motion, and upon consideration of applicable case law.[1]

As a basis for its attorneys' fees, petitioner has relied upon its Counterclaim, in which the prayer for attorneys' fees resides. As early as one month before trial, the District Court considered the question of attorneys' fees under a proffered consent decree of Defendant dated May 8, 1959 (Not in the record) and hearing conducted on May 26, 1959 (Joint Appendix page 9a). These factors are now overlooked by Petitioner. Additionally, the prayer for attorneys' fees within the counterclaim had not been elevated to the status of a claim, thus the prayer was immature.[2] Obviously, it could mature only upon Respondent-patentee's failure to prevail in the trial which was set for the issues of misuse,

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[1] These principles are expressed in Union National Bank of Youngstown, Ohio vs. Superior Steel Corporation, DCWD Pa. 1949 (9 FRD 117). See also: Ramsburg Electro-Coating Corp. v. Hamilton Mfg. Co. 159 F. Supp. 159; Philadelphia Gear Works, Inc. v. Kerotest Mfg. Co., 101 F. Supp. 820; Home Owners Loan Corp. v. Huffman, 134 F. 2d 314, 317.

[2] Rule 13 Federal Rules of Civil Procedure, Title 28 United States Code.

etc.—failure of Respondent to prevail was moreover an entirely speculative matter. Bearing in mind Federal Rule of Civil Procedure 13, all basis for attorneys' fees collapsed as non-existent on the grounds that a counterclaim includes any claim which, at the time of serving, the pleader has against the opposing party.[a] It would be folly to assume, as Petitioner requests, that at its time of serving the counterclaim, it had a basis for attorneys' fees against Respondent, and it is folly to assume that its allegations of statutory violation are sufficient "judgment" to give the District Court a basis for awarding the attorneys' fees as requested.

Respondent does not take issue with Petitioner's definition of the type of case involving exercise of the Statute 35 U.S.C. § 285, nor does it find the case law relied upon to be in error. Rather, each of the cases relied upon by Petitioner and cited at page 6 of its Brief, holds to the principle that defendant would suffer a gross injustice unless attorneys' fees were awarded. Unproven allegations of unclean hands do not give to any defendant, qualification under the doctrines of the case law, whereby the statute may be invoked against patentee. No fraud or vexatious litigation has been proved, such as would place defendant triumphantly within the significant decision of Pennsylvania Crusher Company et al. vs. Bethlehem

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[a] Goodyear Tire & Rubber Co. v. Marbon Corp., 32 F. Supp. 279; Roberts Mining & Milling Co. v. Schrader, 95 F. 2d 522; Moore's Federal Practice, 2d Edition, Vol. III, pp. 85-86.

Steel Co. et al. (C.A. 3, 1951), 193 F. 2d 445. The numerous offers to settle by Plaintiff ante and pendente lite clearly remove this action from the ambit of "vexatious litigation". And the discretionary action of the District Court finds legal precedent in Dixie Cup Co. vs. Paper Container Mfg. Co., 175 F. 2d 834; Jacquard Knitting Co. v. Ordnance Gauge Co., 213 F. 2d 314, 317 and Park-In Theatres, Inc. v. Perkins, 190 F. 2d 137.

This case as previously argued falls within the ambit of Laufenberg, Inc. vs. Goldblatt Bros., Inc., wherein it was held bad practice to litigate patent questions and then litigate the question of attorneys' fees, a decision that was followed in the Philadelphia Brief Case Co. case tried in the Third Circuit in 1958.

CONCLUSION

Petitioner is the alleged wrongdoer but would have the courts each overlook this and divert full their attention to Respondent in an effort to recover attorneys' fees; all contrary to the language of the Laufenberg decision supra. Petitioner succeeded in destroying a bona fide patent suit by expensive counter charges, but should not be permitted to succeed in obtaining a ruling for attorneys' fees when no misconduct of Respondent has been proven to substantiate the numerous alleged violations.

In virtually each of the cases cited by Petitioner, proof of the accused acts was required to qualify the cases as "exceptional" under 35 U.S.C. 285. No at-

torneys' fees have been ordered under Petitioner's case law, as a matter of course. Pennsylvania Crusher Co. et al. v. Bethlehem Steel Co. et al., 193 F. 2d 445. In the Kobe decision, attorneys' fees were awarded upon the basis of a proved monopoly and the bringing of suit in furtherance of monopoly. Kobe, Inc. et al. v. Dempsey Pump Co. et al., 97 F. Supp. 342. The Seismograph decision (Seismograph Service Corp. v. Offshore Raydish, Inc. 263 F. 2d 5), as the others, stands for the correct interpretation of the Statute which invokes its power to penalize proven fraud, subterfuge and vexatious litigation. In E. V. Prentice Co. v. Associated Plywood Mills, Inc., 113 F. Supp. 182, it was held that defendant was "... guilty of such unfairness and inequitable conduct that it would be grossly unjust for Prentice to bear the burden of its own attorneys' fees."

None of the following decisions relied upon by Respondent is in conflict with Petitioner's case law or with the legislative intent. Rather, these decisions stand for the principle that if the conditions upon which suit is dismissed put defendant in the same position that it would be in if the substantive issues on the case were tried and Defendant prevailed on those issues, then Defendant cannot complain.[4]

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[4] Laufenberg, Inc. v. Goldblatt Bros., Inc. (C.A. 7, 1951), 187 F. 2d 823.

Philadelphia Gear Works, Inc. v. Kerotest Mfg. Co. (W.D. Pa., 1951), 101 F. Supp. 820, 822.

Ransburg Electro-Coating Corp. v. Hamilton Mfg. Co. (E.D. Wisc., 1958), 159 F. Supp. 159.

The Court of Appeals simply ruled that "in this instance there was not abuse of discretion (Petitioner's Brief Appendix page 4a). It is thoughtless to say that abuse of discretion is not in issue, and this Brief has been drafted to define just what the Court of Appeals meant by succinctly opining as it did. (Appendix infra page 3a).

Since the District Court had carefully reflected upon brief and arguments on Petitioner's Motion for Summary Judgment, Pre-Trial Statements of the parties, arguments on Motion to Dismiss, all containing information relative to attorneys' fees and since the District Court found no abuse of discretion, the Petition for a Writ of Certiorari should be denied.

Respectfully,

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1000 Connecticut Ave., N.W.,
Washington 6, D. C.,
Attorney for Respondent.

APPENDIX

APPENDIX

FRCP 13(a)

Compulsory Counterclaims. A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction, except that such a claim need not be so stated if at the time the action was commenced the claim was the subject of another pending action. As amended Dec. 27, 1946, eff. March 19, 1948.

FRCP 41(a)(2)

By Order of Court. Except as provided in paragraph (1) of this subdivision of this rule, an action shall not be dismissed at the plaintiff's instance save upon order of the court and upon such terms and conditions as the court deems proper. If a counterclaim has been pleaded by a defendant prior to the service upon him of the plaintiff's motion to dismiss, the action shall not be dismissed against the defendant's objection unless the counterclaim can remain pending for independent adjudication by the court. Unless otherwise specified in the order, a dismissal under this paragraph is without prejudice.

Excerpt from Senate Report No. 1503, 79th Congress, Second Session—June 14, 1956 (page 2):

> "By the second Amendment, the provision relating to attorneys' fees is made discretionary with the court. It is not contemplated that the recovery of attorneys' fees will become an ordinary thing

in patent suits, but the discretion given the court in this respect, in addition to the present discretion to award triple damages, will discourage infringement of a patent by any one thinking that all he would be required to pay if he loses the suit would be a royalty. The provision is also made general so as to enable the Court to prevent a gross injustice to an alleged infringer."

UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

No. 12,983

HARDINGE COMPANY, *Incorporated*,

v.

JONES & LAUGHLIN STEEL CORPORATION, *Appellant*

Appeal from the United States District Court for the Western District of Pennsylvania

Argued February 2, 1960

Before GOODRICH, HASTIE and FORMAN, *Circuit Judges.*

OPINION OF THE COURT

(Filed February 15, 1960)

PER CURIAM

This is an appeal from a judgment of the District Court for the Western District of Pennsylvania which denied award of attorney fees in a patent case. The suit was the usual type of a patent infringement. The case went through the process of discovery and there was a pre-trial conference and a pre-trial order. Facts appeared on which the defendant based a claim of misuse of patents and other matters. Following the pre-trial conference, the plaintiff moved to dismiss and the court granted the motion to dismiss but with prejudice. The court denied the defendant counsel fees under 35 U.S.C. Section 285. Such an award is necessarily one based upon the court's discretion and its consideration of what constitutes an exceptional case under the stat-

ute cited. We do not think that the exercise of the court's descretion against such an award in this instance is one which we can say constituted an abuse of that discretion. The judgment will be affirmed.

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit

(678-3)